



UMSHWATHI MUNICIPALITY
(KZN221)

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2020

INDEX	Page
General Information	01
Accounting Officer's Report	03
Accounting Policies	04
Statement of Financial Position	21
Statement Of Financial Performance	22
Statement of Changes in Net Assets	23
Cash Flow Statement	24
Statement of Comparison of Budget and Actual Figures	25
Notes to the Annual Financial Statements	26
Appendix A: Schedule of External Loans	53
Appendix B: Analysis of Property, Plant and Equipment	54
Appendix C: Segmental Analysis of Property, Plant and Equipment	55
Appendix D: Segmental Statement Of Financial Performance	56
Appendix E (1): Actual versus Budget (Revenue and Expenditure)	57
Appendix E(2) Actual versus Budget (acquisition of Property, Plant and Equipment)	58
Appendix F: Disclosures of Grants and subsidies in Terms of the Municipal Finance Management Act	59

GENERAL INFORMATION

SPEAKER OF COUNCIL

: Cllr. N.P. Mdunge

MEMBERS OF THE EXECUTIVE COMMITTEE

Councillor	G.M. Zondi	:	Mayor, Exco Chairperson
Councillor	M.P. Dlamini	:	Deputy Mayor
Councillor	S.M. Mbatha-Ntuli	:	Exco Member
Councillor	N.E. Cebekhulu	:	Exco Member
Councillor	M.P. Majozi	:	Exco Member

CATEGORY OF LOCAL AUTHORITY

CATEGORY TWO (2)

AUDITORS

AUDITOR-GENERAL SOUTH AFRICA

BANKERS

FIRST NATIONAL BANK

REGISTERED OFFICE

Main Road
New Hanover
3230

TELEPHONE

033 - 8166800

MUNICIPAL MANAGER

Mr. N.M. Mabaso

CHIEF FINANCIAL OFFICER

Mr. R.M. Mani

MEMBERS OF THE UMSHWATHI MUNICIPAL COUNCIL

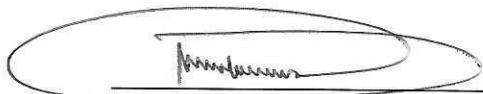
PR	:	Cllr. N.P. Mdunge
PR	:	Cllr. G.M. Zondi
PR	:	Cllr. N.T. Ngubane
PR	:	Cllr. T.C. Dlame
PR	:	Cllr. S.G. Jila
PR	:	Cllr. N.A. Thusi
PR	:	Cllr. B.K. Mkhize
PR	:	Cllr. A.T. Ndlovu
PR	:	Cllr. M.P. Dumakude
PR	:	Cllr. M.P. Majozi
PR	:	Cllr. V.M. Mncwabe
PR	:	Cllr. R. Thomas-Govender
PR	:	Cllr. M.N. Shezi (01 July 2019 to 12 Dec 2019)
PR	:	Cllr. B.E. Mncube (12 Dec 2019 30 Jun 2020)
W1	:	Cllr. M.P. Dlamini
W2	:	Cllr. P.M. Dladla
W3	:	Cllr. B.E. Nzama
W4	:	Cllr. N.E. Cebekhulu
W5	:	Cllr. G.H. Ngcobo
W6	:	Cllr. M.W. Mngadi
W7	:	Cllr. S.M. Mbatha-Ntuli
W8	:	Cllr. N.W. Gasa
W9	:	Cllr. E.B. Mbongwe
W10	:	Cllr. C.SS. Zuma-Dube
W11	:	Cllr. L.P. Zondi
W12	:	Cllr. S.J. Luthuli
W13	:	Cllr. N.R. Khanyile
W14	:	Cllr. M.Z. Mbewana

MAYOR : **Councillor G.M. Zondi**

DEPUTY MAYOR : **Councillor M.P. Dlamini**

APPROVAL OF FINANCIAL STATEMENTS

The Annual Financial Statements set out on pages to were approved by the Municipal Manager on 29 October 2020 and presented to and noted by Council on 29 October 2020.



MUNICIPAL MANAGER
(Accounting Officer)
29 October 2020



CHIEF FINANCIAL OFFICER

29 October 2020

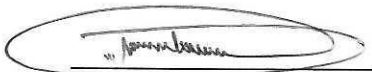
Accounting Officer's Report

As the accounting officer of uMshwathi Local Municipality, I am proud to present herewith the annual financial statement for the period ending 30 June 2020.

The annual financial statements are prepared as required in term of section 122 of the Municipal Finance Management Act and submitted to the Auditor General in terms of section 126 (1) (a) of the Municipal Finance Management Act. It is my view that the Annual financial statements fairly present the true financial position of the municipality and all the records to support the same are available for inspection.

I am of the opinion that based on the information provided to me by management and internal audit the systems of internal control provides reasonable assurance that the financial records may be relied upon for the preparation and submission of these annual financial statements. It must be noted that employee salaries are based on the collective agreement signed by labour and the South African Local Government Association. Councillor allowances are within the upper limits as set out in Government Notice 475 dated 24 April 2020.

I have reviewed the Municipality's cash forecast for the year ending 30 June 2020 and in light of this review and the current financial position I am satisfied that the Municipality has access to adequate resources to fulfil all its obligations as required by various provisions of legislations.



Mr. N.M. Mabaso
Municipal Manager

Date: 31 October 2020

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1. BASIS OF PRESENTATION

The Annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP).

The Standards comprise of the following:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 5	Borrowing Costs
GRAP 9	Revenue
GRAP 13	Leases
GRAP 14	Events after Balance Sheet Date
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Asset
GRAP 20	Related Party Transactions
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in the Financial Statements
GRAP 25	Employee Benefits
GRAP 31	Intangible Assets
GRAP 104	Financial Instruments.
GRAP 108	Statutory Receivables
GRAP 109	Principals and Agents

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

GRAP statements 4, 6, 7, 8, 10, 11, 12, 16, 27, 100, 101, 103, 105, 106 and 107 have not been implemented since they do not affect the operations of the municipality.

GRAP standards 18, 34, 35, 36, 37, 38 and 110 are approved but not yet effective but will not affect the municipality's financial statements when they become effective. GRAP 18 will be effective on or after April 2020.

Details of related party transactions are disclosed as per GRAP 20.

These accounting policies and the applicable disclosures have been based on Standards Of International Public Sector Accounting Standards (PSAS) issued by the International Federation of Accountants-Public Sector Committee, International Accounting Standards (IAS) issued by the International Accounting Standards Board, of Generally Accepted Accounting Practice issued by the South African Accounting Practice Boards and the South African Institute of Chartered Accountants' Accounting Practice Committee.

2. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand

3. GOING CONCERN ASSUMPTION

Significant judgements and estimates

In the application of the municipality's accounting policies, which are described below, management is required to make judgement, estimates and assumption that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experiences and other factors that are considered too reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

Based on the assumptions and estimates these annual financial statements have been prepared on a going concern basis.

4. HOUSING DEVELOPMENT FUND

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 01 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 01 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the of the Housing Development Fund can be used only to finance housing developments within the municipality area subject to the approval of the Provincial MEC responsible for housing.

5. RESERVES

5.1 *There are no Reserves*

6. ASSETS

6.1 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, is stated at cost, less accumulated depreciation. Land is not depreciated as it is deemed to have an indefinite life.

The cost of items of property, plant and equipment acquired in exchange for a non-monetary or monetary asset, or a combination of monetary and non-monetary assets is measured at its fair value .If the cost cannot be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Assets under construction are recognised as such and capitalized at the cost incurred as at year end. Subsequent expenditure is capitalized when the recognition and measurement criteria of an asset are met.

The GRAP Standard on Impairment of Assets is applied to determine whether an item of property, plant and equipment need to be impaired. Refer to paragraph 14.1.

Depreciation is calculated based on cost, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:-

	YEAR	OTHER	YEARS
Infrastructure			
Roads and Paving	20	Air Conditioners	5 to 10
Infrastructure	30	Other Vehicles	5

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

Electricity	20	Office equipment	5 to 10
		Furniture and Fitting	5 to 10
Street Lights	25	Other items of plant and equipment	5
		Computers and Computer Software	5

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognized in the Statement of Financial Performance.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged against the Revenue.

Depreciation on assets under construction during the year is only provided for once the asset is brought into use.

6.2 INTANGIBLE ASSETS

Computer Software is identified as Intangible Assets and is disclosed as such in the financial statements. The intangible asset is amortised over a period of five years. Intangible assets are disclosed at cost less amortization in the financial statements.

7. FINANCIAL INSTRUMENTS

The fair value of financial Instruments, which include fixed deposits and short-term deposits invested in registered banks, are valued at cost, including interest capitalized, at the end of the reporting period.

Where investments have been impaired, the carrying value is adjusted by the loss, which is recognized as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

The carrying value of trade receivables and payables are assumed to approximate their fair values. Trade receivables (debtors) have not been discounted as required by IAS 39 since the bulk of the debtors are rates debtors and arrear accounts are charged interest on the arrear balance on a monthly basis.

**uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

7.1 ACCOUNTS RECEIVABLE

Accounts receivable are carried at anticipated realisable value. The bulk of the outstanding debtors are made up of rates and interest raised on arrear accounts over the years. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. No bad debts were written off during the year. Amounts that are receivable within 12 months from the reporting date are classified as realizable

The impairment for trade receivables is calculated on a portfolio basis and is based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date.

7.2 TRADE CREDITORS

Trade creditors are stated at their nominal value.

7.3 CASH AND CASH EQUIVALENTS

Cash includes cash on hand and with banks. Cash equivalents are short- term highly liquid investments that are held with registered banking institutions with maturities of six months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdraft.

8. INVENTORIES

The only inventory held is that of consumable stores. The cost of consumable stores is expensed at the time of purchase.

9. BORROWING COSTS

Borrowing costs are recognised as an expense in the Statement of Financial Performance.

**uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

10. REVENUE RECOGNITION

10.1 Revenue from exchange transactions

Service charges relating to refuse removal are recognized on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month

Interest and rentals are recognized on a time proportionate basis.

Revenue arising from the application of the approved tariff of charges is recognized when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Income for agency services is recognized on a monthly basis once the income collected on behalf of agents has been quantified. The income recognized is in terms of an agency agreement.

Finance income from the sale of housing by way of installment sales agreements or finance leases is recognized on a time proportionate basis.

Revenue from public contributions is recognized when all conditions associated with the contribution have been met or, where the contribution is to finance property, plant and equipment, when such item of property, plant and equipment is brought into use.

Where public contributions have been received but the municipality has not met the condition, a liability is recognized.

10.2 Revenue from non-exchange transactions

Revenue from property rates is recognized when the legal entitlement to this revenue arises. Collection charges are recognized when such amounts are legally enforceable. Penalty interest on unpaid rates is recognized on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognized when payment is received. Donations are recognized on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use.

Contributed property, plant and equipment are recognized when such items of property, plant and equipment are brought into use.

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

Revenue from the recovery of unauthorized, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognized when the recovery thereof from the responsible Councillors or officials is virtually certain.

11. CONDITIONAL GRANT AND RECEIPTS

Revenue received from conditional grants and donations is recognized as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligation have not been met, a liability is recognized.

12. PROVISIONS

Provisions are recognized when the Municipality has a present or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. The municipality provides for annual leave and long service awards. The leave provision is based on the number of days accrued to employees at year end multiplied by the daily basic salary applicable on 01 July. The provision for the long service award is valued by an actuary as at year end.

Bank overdrafts are recorded based on the facility utilized. Finance charges on bank overdraft are expensed as incurred.

13 LEASES

Leases for photocopiers are recognised as operating leases and the contractual lease payments are recognised as expenses over the term of the lease.

The hire purchase agreement for the mayor's vehicle is classified as a finance lease and is recognised as an asset in the statement of financial position and the lessor is disclosed as a finance lease obligation.

14. IMPAIRMENT OF ASSETS

14.1 Non-Cash-Generating Assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

**uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

Non-cash-generating assets are assets other than cash-generating assets.

Identification

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approaches:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in a surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Re-designation

The re-designation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a re-designation is appropriate.

15. EMPLOYEE BENEFITS

15.1 Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus; incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

15.2 Post-employment benefits: Defined Benefit plans

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined benefit plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

16. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003), Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

17. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal System Act (Act No. 32 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

18. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

19. COMPARATIVE INFORMATION

19.1 Current Year Comparatives

Budgeted amounts have been included in the annual financial statements for the current and previous financial years

19.2 Prior Year Comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified.

20. Presentation of Budget Information

The municipality is typically subject to budgetary limits in the form of an approved budget which is approved by Council through legislation and regulations applicable in preparation of budgets. The budget is prepared on an accrual basis and linked to performance outcome objectives. The reporting requirements puts an onus on the municipality to provide information on whether resources were obtained in accordance with the legally adopted budget.

The budget covers the financial year under review namely 01 July 2018 to 30 June 2019. The budget and the annual financial statements are prepared on the same basis of accounting. A comparison of the budget to actual amounts is reflected in the Statement of comparison of Budget and Actual Amounts.

21. RELATED PARTIES

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Key management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favorable than the terms it would use to conclude transactions with another entity or person are disclosed.

22. COMMITMENTS

Commitments for contracts already contracted for in the year under review but to be completed and payable in the following year are disclosed as contracted commitments and the approved capital budget for the following year is disclosed as uncontracted commitments.

23. STATUTORY RECEIVABLES

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset. Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The municipality uses the cost method to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest at a nominal rate or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised. Nominal interest rate is specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable); impairment losses; and amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate. Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in Accrued interest above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired. In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

The municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of

the statutory receivable, is reduced, either directly or through the use of an allowance account.

In estimating the future cash flows, the municipality considers both the amount and timing of the cash flows that it will receive in future. Where the effect of the time value of money is material the estimated future cash flows are discounted using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimate used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows. Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable exceeding what the carrying amount of the receivable would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

- The receivable is derecognised; and
- recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

24. PRINCIPALS AND AGENTS

Identification

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement. The assessment of whether the municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement. Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent,

uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

then it is the principal in the transactions. The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

For the period under assessment the municipality has the following principal-agent arrangements:

- The municipality acts as an agent to administer the issuing of driver's, learner and vehicle licenses on behalf of the Provincial Department of Transport. The municipality receives a commission for providing the service as an agent
- The municipality constructs electrical infrastructure with funding received from the Department of Energy. The infrastructure is built according to standards set by Eskom. Since the municipality is not an electricity license holder the infrastructure, once complete, is handed over to Eskom. As a result the municipality is an agent in this arrangement.

uMSHWATHI LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2020

	Note	2020 R	2019 Restated R
ASSETS			
Non - current assets		240 314 940	229 032 164
Property , plant and equipment	5	228 908 738	216 488 069
Investment Property	5.1	10 669 726	11 140 304
Intangible Assets	6	736 476	1 403 791
Current assets		141 053 428	124 078 483
Receivables: Non-Exchange Transactions	7	75 028 437	69 324 683
Receivables: Exchange Transactions	7	11 305 459	8 364 311
Other debtors: Exchange	8	3 019 090	3 085 544
Other debtors: Non-Exchange	8	5 981 530	5 543 613
Value Added Tax Receivable	4	4 457 668	2 495 543
Call investment deposits	9	39 877 840	33 520 898
Bank balances and cash	10	1 383 404	1 743 890
Total Assets		381 368 368	353 110 647
Non - current liabilities		2 924 646	2 924 646
Non-current portion of Long Service Award Liability	2.1	2 924 646	2 924 646
Current liabilities		7 270 408	17 320 255
Creditors	2	2 961 469	13 163 926
Provisions	2.2	3 889 721	3 263 846
Unspent conditional grants and receipts	3	419 218	-
Current portion of long term liabilities	1	-	892 483
Total Liabilities		10 195 054	20 244 901
Net Assets		371 173 314	332 865 746
NET ASSETS			
Net assets		371 173 314	332 865 745
Accumulated surplus		371 173 314	332 865 745
		371 173 314	332 865 745

0 -0.48

**uMSHWATHI LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2020**

BUDGET			ACTUAL		
2019 R	2020 R	REVENUE	Note	2020 R	2019 Restated R
Revenue from Non-Exchange Transactions					
42 250 000	44 012 000	Property rates	11	44 187 273	45 504 992
40 000	30 000	Traffic Fines		12 500	43 753
2 625 000	2 225 000	Income for agency services	12	1 706 232	2 911 297
97 972 000	108 997 000	Government grants and subsidies	13	108 577 782	97 972 000
27 098 000	27 591 000	Capital Funding	13	27 591 000	27 098 000
169 985 000	182 855 000			182 074 787	173 530 042
Revenue from Exchange Transactions					
2 250 000	2 500 000	Service charges	12	2 712 801	2 402 453
700 000	700 000	Rental of facilities and equipment		595 055	730 898
1 600 000	2 000 000	Interest earned - external investments		2 485 488	2 335 094
8 000 000	8 000 000	Interest earned - outstanding debtors		6 875 174	9 044 855
10 360 000	322 000	Other income	14	221 224	1 354 806
22 910 000	13 522 000			12 889 742	15 868 106
192 895 000	196 377 000	Total Revenue		194 964 529	189 398 148
EXPENDITURE					
67 617 800	71 195 000	Employee related costs	15	70 007 356	67 709 590
9 620 000	10 155 000	Remuneration of Councillors	16	9 997 368	9 741 464
200 000	150 000	Collection costs		55 162	261 686
14 000 000	15 000 000	Depreciation	5/6	14 249 619	13 438 977
200 000	200 000	Interest paid	17	66 302	167 322
35 045 000	30 770 000	Contracted services	21	26 697 582	27 149 150
31 700 200	33 013 000	General expenses	22	29 725 344	24 616 915
500 000	5 000 000	Contribution to Provisions		4 954 526	2 284 913
0	0	Contribution to Capital		-	-
158 883 000	165 483 000	Total Expenditure		155 753 259	145 370 016
34 012 000	30 894 000	Surplus for the year		39 211 270	44 028 131

Refer to Appendix E .1 for explanation of variances

uMSHWATHI LOCAL MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2020

	Note	Accumulated Surplus
		R
Balance as per 30 June 2018		311 439 564
Surplus - (deficit) for the year		44 931 822
Original Balance as at 30 June 2019		356 371 386
Prior Year Adjustments	24	-24 409 333
Restated balance as at 30 June 2019		331 962 053
Surplus for the year		39 211 270
Balance as at 30 June 2020		371 173 323

uMSHWATHI LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 R	2019 Restated R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Sales of Goods and Services		45 266 503	45 165 888
Grants		108 577 782	97 972 000
Interest Received		2 485 488	2 335 094
Other Receipts		27 591 000	27 098 000
		183 920 774	172 570 982
Payments			
Employee Costs	15/16	(80 004 724)	(76 521 466)
Suppliers		(71 428 414)	(41 427 725)
Interest Paid	17	(66 302)	(167 322)
		(151 499 440)	(118 116 513)
NET CASH INFLOW FROM OPERATING ACTIVITIES	19	32 421 334	54 454 470
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	(25 532 395)	(29 641 843)
Investments redeemed/acquired		(6 356 942)	(23 532 451)
Proceeds from disposal of Assets		-	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(31 889 336)	(53 174 294)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of external loans		(892 483)	(738 855)
Repayment of finance lease obligations			
NET CASH FROM FINANCING ACTIVITIES		(892 483)	(738 855)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(360 486)	541 321
Cash and cash equivalents at the beginning of the year		1 743 890	1 202 569
Cash and cash equivalents at the end of the year	10	1 383 404	1 743 890
		(360 486)	541 321
		(0.27)	(0.00)

Statement of Comparison of Budget and Actual Amounts
30 June 2020
Operational Budget

Details	Original Budget	Adjustments (\$28)	Final Budget	Actual	Variance	Comments
Revenue from Non-Exchange Transactions						
Property Rates	37 872 000	6 140 000	44 012 000	44 187 273	175 273	The increase in net rates is due to the over budget for rebates on Government properties
Traffic Fines	40 000	(10 000)	30 000	12 500	(17 500)	
Income for agency services	2 625 000	(400 000)	2 225 000	1 706 232	(518 768)	Due to the Covid Lockdown the Motor licensing office was closed between April and June
Grants: Operational	108 044 000	953 000	108 997 000	108 577 782	(419 218)	Unspent portion of the disaster relief grant has been recognised as a liability
	148 581 000	6 683 000	155 264 000	154 483 787	(780 213)	
Revenue from Exchange Transactions						
Service Charges	2 250 000	250 000	2 500 000	2 712 801	212 801	There were some additional applications for refuse removal during the year
Rental of facilities and equipment	700 000	-	700 000	595 055	(104 945)	There was an increase in tenants taking up space at the Thusong Centre
Interest earned - external investments	1 600 000	400 000	2 000 000	2 485 488	485 488	Investments were held for longer periods during the year thus an increase in interest earned
Interest earned - outstanding debtors	8 000 000		8 000 000	6 875 174	(1 124 826)	Relief on interest was given between April and June was given due to the Covid Lockdown
Other income	365 000	(43 000)	322 000	221 224	(100 776)	Income from resources such as hall rentals, taxi ranks and building plans was less due to the lockdown
	12 915 000	607 000	13 522 000	12 889 742	(632 258)	
Total Operating Revenue	161 496 000	7 290 000	168 786 000	167 373 529	(1 412 471)	
Operating Expenditure						
Employee Costs	69 598 000	1 597 000	71 195 000	70 007 356	(1 187 644)	Certain budgeted posts were not filled in an attempt to reduce the salary to total cost ratio
Councillor Allowances	10 582 000	(427 000)	10 155 000	9 997 368	(157 632)	
Depreciation	15 000 000	0	15 000 000	14 249 619	(750 381)	
Interest Paid	300 000	(100 000)	200 000	66 302	(133 698)	The budget for finance charges was over budgeted
Other Expenditure	62 766 000	1 167 000	63 933 000	56 478 089	(7 454 911)	Certain expenditure that was budgeted for were not incurred due to the Covid Lockdown
Contribution to Reserves	500 000	4 500 000	5 000 000	4 954 526	(45 474)	
Contribution to Capital	-	-	-	-	-	
Operational Expenditure	158 746 000	6 737 000	165 483 000	155 753 259	(9 729 741)	
Operating Surplus before Capital Expenditure	2 750 000	553 000	3 303 000	11 620 270	8 317 270	
Capital Transfer Recognised	27 591 000	0	27 591 000	27 591 000	0	
Surplus for the year before Capital Expenditure	30 341 000	553 000	30 894 000	39 211 270	8 317 270	

189 087 000.00

196 377 000.00

194 964 528.99

193 074 000.00

30 341 000.00

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 Restated R
1 LONG TERM LIABILITIES		
Capitalised lease liability		
External loans	0	892 483
	0	892 483
Less current portion transferred to current liabilities	0	(892 483)
	-	-
2 CREDITORS		
Trade creditors	2 924 991	13 181 326
Unallocated Receipts	36 478	13 020
	2 961 469	13 194 346
2.1 Provision for Long Service Award		
Non Current Liability for Long Service Award	2 924 646	2 924 646
Current Liability for Long Service Award	-	-
	2 924 646	2 924 646
An actuarial valuation was done for the provision for Long Service Awards to Current employees in terms of GRAP 25 and a liability raised accordingly. Due to the uncertainty of who will be entitled to the award an actuarial valuation was done on all employees based on their date of appointment together with the policy on the qualifying of the Long Service Award.		
2.2 Leave Provision		
Opening Balance	3 263 846	2 681 732
Leave Paid	(1 140 502)	(1 421 119)
Unutilised Leave	2 123 344	1 260 613
Current Contribution	1 766 377	2 003 233
Closing Balance	3 889 721	3 263 846

Provision for leave relates the number of days accumulated by employees during the reporting period. The provision is calculated on the leave balance due on 30 June 2020. This is the amount the employee will be entitled to should the employee cease employment on 30 June 2020. The municipality is not aware of the time when the leave will be paid out since this is dependent on the time when the employee ceases to be

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

an employee

3 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

3.1 Conditional grants from other spheres of government

Total conditional grants and receipts

2020	2019
R	Restated R

419 218	-
---------	---

419 218	0
----------------	----------

MIG

Opening Balance
 Received During the year
 Expended During the year
 Closing Balance

-	-
27 591 000	27 098 000
(27 591 000)	(27 098 000)
0	0

FMG

Opening Balance
 Received During the year
 Expended During the year
 Closing Balance

-	-
1 970 000	1 970 000
(1 970 000)	(1 970 000)
0	0

Public Works: EPWP

Opening Balance
 Received During the year
 Expended During the year
 Closing Balance

-	-
1 322 000	1 471 000
(1 322 000)	(1 471 000)
0	0

DoE Funding: INEP Grant

Opening Balance
 Received During the year
 Expended During the year
 Closing Balance

-	-
5 000 000	10 000 000
(5 000 000)	(10 000 000)
0	0

The INEP grant received is for projects carried out on behalf of the Department of Energy. The municipality does not have a license for distribution of electricity thus the projects are carried out on an agency basis. The grant received is not recognised as income and the expenditure incurred is set off against the grant received.

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	R	Restated R
Provincial Grant: Department of Arts and Culture		
Opening Balance	-	-
Received During the year	2 851 000	2 711 000
Expended During the year	(2 851 000)	(2 711 000)
Closing Balance	<u>0</u>	<u>0</u>
Disaster Relief Grant		
Opening Balance	-	-
Received During the year	953 000	0
Expended During the year	(533 782)	0
Closing Balance	<u>419 218</u>	<u>0</u>
4 VAT Receivable	<u>4 457 668</u>	<u>2 495 543</u>
VAT refundable	<u>4 457 668</u>	<u>2 495 543</u>

VAT is payable on the receipts/payment basis

5 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying value	Land and Buildings	Roads Infrastructure	Furniture & Equipment	Vehicles	Machinery & Tools	Total
Carrying value at 1 July 2019						
Cost	121 277 130	169 147 860	10 232 891	8 095 574	3 042 140	311 795 595
Accumulated depreciation						
- Cost	(20 961 392)	(59 655 306)	(7 817 886)	(6 017 633)	(855 309)	(95 307 526)
	<u>100 315 738</u>	<u>109 492 554</u>	<u>2 415 005</u>	<u>2 077 941</u>	<u>2 186 831</u>	<u>216 488 069</u>
Acquisitions	5 361 528	15 697 399	158 533	1 948 805	129 500	23 295 766
Capital under construction	1 208 200	1 028 429				2 236 629
Depreciation						
- based on cost	(3 439 448)	(7 799 441)	(994 942)	(723 599)	(154 296)	(13 111 726)

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

					2020	2019
					R	Restated R
Adjustment cost per category to reconcile to ledger and Assets Register	1 400 812	(1 400 812)	1 406 727		(1 406 727)	0
Carrying value at 30 June 2020						
Cost	129 247 670	184 472 877	11 798 151	10 044 379	1 764 913	337 327 989
Accumulated depreciation						
- Cost	(24 400 840)	(67 454 747)	(8 812 827)	(6 741 232)	(1 009 605)	(108 419 252)
	<u>104 846 830</u>	<u>117 018 129</u>	<u>2 985 324</u>	<u>3 303 146</u>	<u>755 307</u>	<u>228 908 738</u>
Reconciliation of carrying value	Land and Buildings	Infrastr- ucture	Furniture & Equipment	Vehicles	Machinery & Tools	Total
Carrying value at 1 July 2018						
Cost	125 569 728	152 610 336	8 925 125	10 124 567	2 872 140	300 101 896
Accumulated depreciation						
- Cost	(19 641 211)	(52 172 249)	(6 559 197)	(7 220 392)	(1 135 851)	(86 728 901)
	<u>105 928 518</u>	<u>100 438 086</u>	<u>2 365 928</u>	<u>2 904 175</u>	<u>0</u>	<u>213 372 996</u>
Acquisitions	4 834 189	10 585 383	1 307 766		170 000	16 897 337
Capital under construction	6 792 364	5 952 142				12 744 506
Depreciation						
- based on cost	(3 355 208)	(6 954 230)	(1 083 034)	(779 303)	(129 309)	(12 301 084)
Disposal: Cost				(2 028 993)		(2 028 993)
Accumulated Depreciation				2 028 993		2 028 993
Adjustment to Accumulated Depreciation to reconcile to Fixed Asset Register	507 334	(528 827)	68 424	(46 932)		0
Adjustment to Accumulated Depreciation to reconcile to Fixed Asset Register			(244 079)		409 852	165 773
Removal of Electrification	(15 919 151)					(15 919 151)
Accumulated Depreciation	1 527 693					1 527 693

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

					2020	2019
					R	Restated R
Carrying value at 30 JUNE 2019						
Cost	121 277 130	169 147 860	10 232 891	8 095 574	3 042 140	311 795 595
Accumulated depreciation						
- Cost	(20 961 392)	(59 655 306)	(7 817 886)	(6 017 633)	(855 309)	(95 307 526)
	<u>100 315 738</u>	<u>109 492 554</u>	<u>2 415 005</u>	<u>2 077 941</u>	<u>2 186 831</u>	<u>216 488 069</u>

The following Repair and Maintenance Costs were incurred during the year in maintaining the municipality's Property, Plant and Equipment:

Roads	7 329 617
Buildings	4 218 651

Note: Some fully depreciated assets still in use as indicated in the table below. It was decided not to re-assess the useful lives of these assets due to the high cost of appointing an independent assessor to carry out the process.

Refer to Appendix B for more detail on property, plant and equipment

Assets Under Construction:

Sicolele Community Hall	Work in Progress	0	2 091 253
Urban Sportsfield	Work in Progress	0	3 733 770
Disability Skills Centre	Work in Progress	113 075	113 075
Construction of Mthizane Creche	Work in Progress	110 880	110 880
High Mast Lighting	Work in Progress	353 325	19 992
Community Offices	Work in Progress	0	723 405
Shiyabazali Internal Roads	Work in Progress	0	1 149 664
Cool Air/Dalton Intersection	Work in Progress	0	1 858 042
Mbeka Access Road	Work in Progress	0	479 610
D1013	Work in Progress	0	2 423 426
Thokozane Access Road	Work in Progress	0	41 400
Thokozane Community Centre	Work in Progress	320 056	0
Completion of Efaye Sportsfield	Work in Progress	554 811	0
Construction of D239 - Design Cost	Work in Progress	1 028 429	0
		<u>2 480 575</u>	<u>12 744 516</u>

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

5.1 INVESTMENT PROPERTY

Cost

Accumulated Depreciation

Carrying Value: 01 July 2019

Additions: Current Year

Cost as at 30 June 2019

Depreciation: Current Year

Depreciation as at 30 June 2020

Carrying Value at end of the year

2020 R	2019 Restated R
14 117 347	14 117 347
(2 977 042)	(2 506 464)
11 140 304	11 610 883
0	0
14 117 347	14 117 347
(470 578)	(470 578)
(3 447 621)	(2 977 042)
10 669 726	11 140 304

The Thusong Centre is classified as Investment Property due to the nature of rentals collected from the Government Departments. Investment Property is depreciated on a straight line basis over 30 years

6 INTANGIBLE ASSETS

Software Licences and LAN Network

Cost: 30 June 2019

Accumulated Amortisation

Carrying Value 01 July 2019

Additions - 2019/20

Amortisation for the year

Cost: 30 June 2020

Accumulated Amortisation

Carrying Amount 30 June 2019

3 658 417	3 658 417
(2 254 626)	(1 587 312)
1 403 791	2 071 106
0	0
(667 315)	(667 315)
(667 315)	(667 315)
3 658 417	3 658 417
(2 921 941)	(2 254 626)
736 476	1 403 791

The software and network is being amortised over 5 years being its useful life.

7 CONSUMER DEBTORS

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 Restated R
Balances at 30 June 2020	Gross balance	Provision for doubtful debts
Receivables from Exchange Transactions		Net balance
Service debtors	5 225 099	(793 014)
Sundry Other: Interest and Rental	25 742 063	(18 868 689)
	30 967 162	(19 661 703)
Receivables from Non-Exchange Transactions		11 305 459
Rates	96 443 691	(21 415 254)
Total	127 410 853	(41 076 957)

Ageing

	(0 - 30 days)	31 - 60 days	61 - 90 days	91 - 120 days	> 120 days	Total
	3 652 959	1 965 661	1 691 988	1 653 013	118 447 231	127 410 853
Agriculture	941 901	424 797	360 316	360 086	15 095 871	17 182 972
Commercial	687 449	363 860	295 389	291 725	9 384 787	11 023 210
Government	690 847	412 171	398 900	378 431	44 891 608	46 771 958
Residential	1 332 761	764 833	637 383	622 771	49 074 965	52 432 713

Balances at 30 June 2019

Receivables from Exchange Transactions

	Gross balance	Provision for doubtful debts	Net balance
Service debtors	7 388 475	(731 465)	6 657 010
Other: Interest and Rental	19 111 514	(17 404 213)	1 707 302
	26 499 989	(18 135 678)	8 364 311

Receivables from Non-Exchange Transactions

	Gross balance	Provision for doubtful debts	Net balance
Rates	98 388 188	(19 753 128)	78 635 060
Total	124 888 177	(37 888 806)	86 999 371

Ageing

(0 - 30 days)	31 - 60 days	61 - 90 days	91 - 120 days	> 120 days	Total
4 842 725	3 008 731	2 096 546	2 065 412	112 875 162	124 888 577

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

					2020	2019
					R	Restated
					R	R
Agriculture	930 179	373 408	282 025	280 983	11 683 398	13 549 992
Commercial	733 077	395 536	312 308	310 305	8 287 325	10 038 550
Government	1 646 689	1 339 349	772 781	726 237	51 215 726	55 700 783
Residential	1 532 781	900 439	729 433	747 887	41 688 713	45 599 252

The carrying value of debtors is assumed to approximate its fair value since interest is charged on accounts once gone into arrears. An estimate is made of doubtful debts based on a review of outstanding debtors at year end. The current provision is considered reasonable since the bulk of the debtors are rates and Government Departments. The amount owing by government departments is R 46 771 958 (55 700 783- 2019), the biggest debt being that owed by the Department Water Affairs, namely, R30 713 507. Debtors have not been discounted since interest is charged on arrear balance on a monthly basis.

7.1 STATUTORY RECEIVABLES

GRAP 108 requires receivable to be split between Statutory and Contractual receivables. In the case of uMshwathi Municipality receivables arising from levying rates on properties and issuing of traffic fines will result in Statutory Receivables. Currently these receivables are included in Consumer debtors and other debtors respectively.

The transitional relief of implementation of GRAP 108 within 3 years has been voluntarily adopted for the current year while the municipality is splitting its receivables. The municipality plans to be GRAP 108 compliant in the 2020/21 financial year.

8 OTHER DEBTORS

District Municipality	Exchange	404 245	404 245
Thokazane housing	Exchange	1 438 745	1 438 745
Department of Housing	Exchange	165 332	165 332
Housing Debtors	Exchange	946 550	946 550
Accrued Interest	Exchange	64 219	130 673
		3 019 090	3 085 544
Debtors: Traffic Fines	Non - Exchange	24 035	24 763
Balance Brought Forward		24 763	25 072
Fines Issued		125 000	466 950
Payments Received		(13 228)	(44 062)
Impairment based on Historical payment rate		(112 500)	(423 197)
Acknowledge of Debt	Non - Exchange	5 303 630	5 028 888
Overpayment	Non - Exchange	163 902	0
Other	Non - Exchange	489 962	489 962
		5 981 530	5 543 613

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2020	2019
R	Restated R
9 000 620	8 629 157

Total other debtors

9 CALL INVESTMENT DEPOSITS

32 day/90 day deposits

39 877 840	33 520 898
39 877 840	33 520 898

Investments are 32 day and /or 90 day money market accounts. A call account is also held in which the equitable share is transferred when received. Funds are transferred from the call account as and when required.

Bank	Account No.	Amount	
Standard	0536 -1443-4-14	20 796	19 586
FNB			
Investment 1	62101572081	10 580 017	8 918 815
Investment 2	62101572172	138 526	132 493
Call Account	62101571710	23 089 749	19 156 622
Call Account: Housing	62214429799	84 194	80 614
Call Account	74491854045	862 039	423 497
ABSA *			
Investment 1	20- 66260264	5 102 519	4 789 272
		39 877 840	33 520 898

10 BANK BALANCES AND CASH

The Municipality has the following bank accounts:

FNB - Primary Bank Account: 62025459232	Chq	62025459232	1 741 156	1 464 492
---	-----	-------------	-----------	-----------

Cash and cash equivalents included in the cash flow statement comprise the following amounts:

Cash on Hand	2 700	2 700
Bank balances and cash	1 380 704	1 741 190
	1 383 404	1 743 890

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 Restated R
11 REVENUE FROM NON EXCHANGE TRANSACTIONS		
Property Rates		
Actual		
Agricultural	11 164 071	10 476 500
Residential	13 164 231	12 709 358
Commercial	8 451 936	6 709 575
Public service infrastructure	0	1 144 419
State	11 407 035	14 465 140
Total assessment rates	44 187 273	45 504 992
Gross Rates	72 291 220	70 038 536
Rebates	(28 103 947)	(24 533 545)
Net Rates	44 187 273	45 504 992
Valuations as at 01 July 2017		
Agricultural	4 647 031 000	4 679 216 000
Small Holding	250 799 000	259 293 000
Residential	1 267 887 000	1 250 071 000
Commercial	466 473 451	460 260 000
Government	1 319 707 000	1 238 863 000
Public Benefit Organisations	173 776 000	101 878 000
Places of Worship	44 091 000	43 121 000
Other	25 558 000	158 823 000
Total property valuations	8 195 322 451	8 191 525 000

11.1 Principal-Agent Arrangement

Income from Motor Licensing

Incomes from Agency Services is made up of commission earned from administering the Motor Licensing section on behalf of Department of Transport on an agency basis. Only the commission received is recognised as income. The main cost related to this arrangement is the employee costs for the section.

1 706 232	2 911 297
------------------	------------------

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	R	Restated R
12 REVENUE FROM EXCHANGE TRANSACTIONS - SERVICE CHARGES		
Refuse removal	2 712 801	2 402 453
	2 712 801	2 402 453
13 GOVERNMENT GRANTS AND SUBSIDIES		
Equitable share	101 901 000	91 820 000
Conditional Grants: Operating	6 676 782	6 152 000
	108 577 782	97 972 000
Conditional Grants: Capital	27 591 000	27 098 000
	136 168 782	125 070 000
FMG	1 970 000	1 970 000
Department of Public Works: EPWP	1 322 000	1 471 000
Department of Arts and Culture	2 851 000	2 711 000
Disaster Relief Grant	533 782	0
Operational Conditional Grants	6 676 782	6 152 000
MIG	27 591 000	27 098 000
Capital Conditional Grants	27 591 000	27 098 000
Total Conditional Grants	34 267 782	33 250 000

13.1 Principal-Agent Arrangement

INEP Grant received from Department of Energy

The municipality constructs electrical infrastructure with funding received from the Department of Energy. The infrastructure is built according to standards set by Eskom. Since the municipality is not an electricity licence holder the infrastructure, once complete, is handed over to Eskom. As a result the municipality is an agent in this arrangement. Expenditure incurred on the project is netted off against the grant received from the department. The allocation of R 5 000 000.00 for the current year was fully expensed.

14 OTHER INCOME

Fees: Photocopies	23 122	28 117
Fees: Rates Clearance	33 861	35 051
Interest: Current Account	35 008	55 145
Community Hall	27 561	57 415
Maintenance: Tender Fees and Building Plans	92 240	244 317
Cemetery	3 652	4 957

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	R	Restated R
Library Fines	823	1 228
Taxi Rank Permits	4 956	15 000
Gain on Disposal of Assets	0	913 578
	221 224	1 354 806

15 EMPLOYEE RELATED COSTS

Employee related costs - salaries and wages	47 798 635	45 050 375
Employee related costs - contributions to UIF, pension and medical costs	12 995 785	12 053 154
Travel, vehicle, accommodation, subsistence and other allowances	3 082 816	3 698 152
Housing benefits and allowances	608 200	606 690
Overtime payments	184 903	170 395
Standby Allowance (previously included in salaries)	1 493 646	1 281 897
Bonus	3 248 927	3 359 933
Skills Levy/Bargaining Council	594 443	559 406
Total employee related costs	70 007 356	66 780 002

There were no loans to employees.

Included in Employee Related costs:
Remuneration of the Municipal Manager

Remuneration	760 239	592 958
Car allowance	506 826	395 306
	1 267 066	988 264

Remuneration of the Chief Financial Officer

Annual remuneration	916 967	698 500
Car allowance	123 360	112 916
	1 040 327	811 416

Remuneration of other managers
30-Jun-2020

	Technical Services	Corporate Services	Community Services
Annual remuneration	624 196	855 287	875 847

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 R	2019 Restated R
Car allowance	416 131	185 040
Contributions to Medical and Pension Funds	-	-
	1 040 327	1 040 327
30-Jun-2019		
Annual remuneration	486 850	631 416
Car allowance	324 566	180 000
Contributions to Medical and Pension Funds	-	-
	811 416	811 416

16 REMUNERATION OF COUNCILLORS

Mayor	889 660	855 349
Deputy Mayor	717 489	689 800
Speaker	717 489	689 800
Executive committee members	1 166 977	1 121 817
Councillors	6 416 586	6 302 065
Skills Levy	89 167	82 633
	9 997 368	9 741 464

Being a full time councillors the Mayor and the Speaker have the use of an office and a council vehicle for official duties

17 INTEREST PAID

External loans	66 302	167 322
	66 302	167 322

18 OPERATING LEASES - RENTALS: COPIERS

The municipality has recognised the lease on photocopiers as operating leases and recognised the payments of 420 316 for the first 10 payments as expenses. The lease is effective from 01 September 2019.

Operating Lease Commitments:

- within 1 year	100 952	166 200
- within 1 year and 4 months	134 603	27 700

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2020	2019
R	Restated R
235 556	193 900
39 211 270	44 931 822
14 249 619	13 438 977
4 954 526	2 284 913
58 415 415	60 655 712
(6 227 256)	(6 227 256)
52 188 159	54 428 455

19 CASH GENERATED BY OPERATIONS

Surplus for the year
 Depreciation
 Contributions to provisions- non-current

 Operating surplus before working capital changes
 Change in Working Capital

20 RELATED PARTY TRANSACTIONS

The municipality is administered by 5 senior managers namely the Municipal Manager (Accounting Officer); the Chief Financial Officer; General Manager: Corporate Services; General Manager: Technical Services and the General Manager: Community Services who are accountable to the Council. During the year the following remuneration was paid to the managers:

	Basic Salary	Car Allowance	Total
Municipal Manager	760 239	506 826	1 267 065
Chief Financial Officer	916 967	123 360	1 040 327
General Manager: Corporate Services	855 287	185 040	1 040 327
General Manager: Technical Services	624 196	416 131	1 040 327
General Manager: Community Services	875 847	164 480	1 040 327
	4 032 536	1 395 837	5 428 373

The Remuneration for Councillors is disclosed in Note 16

There were no further related party transactions

21 CONTRACTED SERVICES

Advertisements	271 341	75 290
Provision of Free Basic Electricity	1 249 723	1 183 158
Induction and Team Building	0	15 997
Information Technology	4 717 452	2 824 628
Insurance	637 576	639 982

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	R	Restated R
Internal Audit	248 062	1 008 336
Job Evaluation	22 029	17 234
Legal Expenses	319 327	768 680
Motivational Speaker	0	60 396
Plant Hire	250 250	589 813
Postage & Stamps	170 922	444 207
Pound	93 000	154 500
Refuse Removal	809 478	1 221 967
Rental: Copiers	420 435	926 616
Repairs and Maintenance	11 697 606	12 120 046
Professional Fees: Development of LUMSReview of LUMS/Land Audit	527 722	670 615
Professional Fees: Development of Review of SDF	0	209 000
Security	2 310 728	2 257 591
Subscriptions	735 372	780 573
Support for SAGE	909 468	0
Tools	8 700	23 900
Town Planning	424 245	61 000
Training	510 100	706 279
Valuation Fees	364 047	389 341
	26 697 582	27 149 150
22 GENERAL EXPENSES		
Accommodation	196 982	289 163
Audit Fee: External	1 453 549	1 426 980
Awareness Campaign	54 730	80 600
Bank Charges	81 041	95 683
Bursaries	182 592	190 519
Catering	810 075	1 449 163
Chemicals and Oil Dispersants	0	4 190
Communication: Budget Process	610 073	799 216
Conferences & Seminars	36 886	196 192
Consulting Fees	282 415	45 609
Council and Management Strategic Plan	0	228 353
Crime Prevention	60 685	12 691
Disaster Management	238 944	262 751

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	R	Restated R
Employee Medical Test	169 314	157 367
EPWP Stipend	796 600	0
Facilitation	1 144 516	887 589
Gardening and Block Making Projects in Various Wards	617 822	1 593 649
Hygiene Services	560 149	99 984
IDP Review	484 542	195 599
Late Mayor's Funeral	0	74 900
Law Enforcement	87 195	0
Library Awareness Campaign	0	34 368
Machinery	20 836	25 217
Maintenance of Fire Equipment	70 921	58 106
Materials	494 847	259 921
Materials	0	134 920
Mayoral Support for Families of Drowning Victims	136 356	55 046
Netball Development	0	11 539
Pauper Burials	54 126	32 385
Performance Awards	60 545	85 969
Pest Control	176 000	92 390
Plant Hire	535 061	0
Printing and Stationery	356 922	370 504
Protective Clothing	668 448	665 863
Purchases: Electricity	2 774 413	2 577 648
Referee Training	0	21 152
Refreshments	162 994	207 534
Small Contractor Development	970 112	0
SMME Support	1 541 708	405 431
Soccer Training	0	43 845
Sound	151 957	56 874
Subsistence and Travelling	2 704 880	1 590 800
Telephones	2 343 296	2 548 274
Tourism	0	25 000
Training	46 484	45 850
Transport	1 133 778	1 222 766
Transport/Vehicle Cost	2 851 224	2 777 801
Ward Based Christmas Events for Children: Gifts	0	84 551

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	R	Restated R
Ward Committee Stipends	1 505 849	1 375 729
Water Consumption	180 967	0
Workmen's Compensation	2 515 870	1 607 190
Youth Workshops	399 641	33 559
World Aids Day Forum	0	76 481
	29 725 344	24 616 915
23 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
23.1 Audit fees	1 453 549	1 426 980
23.2 VAT		
Opening balance	2 495 543	5 040 472
Current year output VAT	(792 252)	(983 679)
Current year input VAT	9 386 589	8 095 890
Amount refunded by SARS	(6 632 212)	(9 657 141)
Amount due from SARS	4 457 668	2 495 543
23.3 PAYE and UIF		
Current year payroll deductions and Council UIF contributions	10 054 803	9 759 467
Amount paid - current year	10 054 803	9 759 467
23.4 Pension and medical aid deductions		
Current year payroll deductions and Council contributions	18 586 585	17 780 400
Amount paid - current year	18 586 585	17 780 400
23.5 Councillors arrear consumer accounts		

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2020	2019
R	Restated R

No Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2020

23.6 Reclassifications

Fines have been reclassified as fines under other income in the statement of financial performance

Traffic Fines	12 500	43 753
Library Fines	823	1 228
	13 323	44 981

Subsistence and Travelling included in General Expenses

Accommodation	1 732 359	1 013 459
Car Rental	36 611	21 754
Flights	810 604	129 619
Incidental	93 306	49 885
Own Transport	32 000	376 083
	2 704 880	1 590 800

Repairs and Maintenance has been reclassified and included in Contracted Services in the statement of Financial Performance

Road Maintenance		
Maintenance	6 747 849	5 314 789
Environment Maintenance	522 868	0
Materials	58 900	704 751
	7 329 617	6 019 540
Building Maintenance		
Creches	624 205	1 476 729
Halls/Sportsfields	2 159 312	3 997 595
Office Buildings	1 236 783	390 968
Libraries	198 350	0

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	R	Restated R
Equipment Maintenance	4 218 651	5 865 292
Plant Maintenance	0	26 601
	149 338	208 613
	149 338	235 214
Total Repairs and Maintenance	11 697 606	12 120 046
24 PRIOR YEAR ERROR		
Back Pay Senior Managers		
Employee Costs 30 June 2019	0	66 780 002
Back Pay Senior Managers	0	929 588
Closing Balance	0	67 709 590
Invoices for Pound Management Received in Current Year		
Contracted Services 30 June 2019	0	27 099 150
Prior Year Invoices received late in current Year	0	50 000
Closing Balance		27 149 150
Invoice for Stationery Received in the current year		
General Expenditure 30 June 2019	0	24 611 812
Stationery Invoice received in the current year	0	5 103
Closing Balance	0	24 616 915
Other Income		
Other Income as at 30 June 2019	0	1 273 806
Part Payment for Sale of Vehicles received in July	0	81 000
Closing Balance	0	1 354 806
Creditors Adjustment		
Creditors as at 30 June 2019	0	13 194 346
Reversal of Astra Travel Invoice	0	(30 420)
Closing Balance	0	13 163 926
PPE Adjustment		
Carrying value of PPE as at 30 June 2019	0	230 713 754
Reversal of Electrification incorrectly capitalised	0	(14 391 459)
Reversal of depreciation over provided on Equipment	0	165 773
Closing Balance	0	216 488 069
Non Exchange Receivables Adjustment		

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2020	2019
R	Restated R
0	78 635 060
0	(9 310 376)
0	69 324 683
0	356 371 388
	-929 588
	-50 000
	-5 103
	81 000
	30 420
0	(14 391 459)
0	165 773
0	(9 310 376)
	331 962 055

25 CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

- approved and contracted for
Infrastructure

2 662 905	14 042 589
2 662 905	14 042 589

The commitments disclosed is net of Value Added Tax

This expenditure will be financed from
Government Grants

2 662 905	14 042 589
2 662 905	14 042 589

26 RETIREMENT BENEFIT INFORMATION

Certain Councillors and Certain employees belong to defined benefit plan of the Natal Joint Superannuation and Retirement funds, and the Municipal Councillors' Pension Fund. Employees of uMshwathi make up less than 1 % of the total members of the funds. uMshwathi's liability in these funds could not be determined owing mainly to the assets not being allocated to each Municipality and one set of financials being prepared for each fund and not per municipality. These funds are subject to a triennial actuarial valuation. The last statutory valuation was performed in March 2018 on the Retirement and Provident Funds and in March 2017 on the

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	R	Restated R
Superannuation Fund.		
Current Year's Contribution	11 938 636	11 126 694

26.1 SUPERANNUATION FUND

The actuarial value of total assets was R11 054.038 million at the actuarial date.
valuation date of 31 March 2017

26.1.1. surplus of R 0.00 million in respect of pensioners (funding level 100.0%)

26.1.2. surplus of R 0.00 million in respect of members (funding level 100 %)

26.1.3. the fund was thus 100,0% funded

26.1.4. the fund did not hold an investment reserve.

26.1.5. the total contribution rate payable, including the surcharge by and on
behalf of members, exceeded that required for future service by 1,41%
of member's pensionable emoluments

26.1.6. An additional contribution by way of a surcharge amounting to 9.5% of
salaries is currently in place to fund the deficit. This surcharge will build up
the Solvency Reserve.

26.2 RETIREMENT FUND

The actuarial value of total assets was R4 055.121 million at the actuarial
valuation date of 31 March 2018

26.2.1. surplus of R 0.00 in respect of pensioners (funding level 100,0%)

26.2.2. deficit of R 148.694 million in respect of members (funding level 91.1%)

26.2.3. the fund was thus 96.1 funded

26.2.4. the fund did not hold an investment reserve

26.2.5. the total contribution rate payable will include a surcharge of 16.5%
payable to reduce the deficit in the fund.

26.3 PROVIDENT FUND

The actuarial value of total assets was R4 105.682 million at the actuarial
valuation date of 31 March 2018

26.2.1. surplus/deficit of R 0.00 and the funding level is 94.66%

26.2.3. the fund was thus 94.66 funded

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	R	Restated
		R
26.2.4. the fund did not hold an investment reserve		
27 CONTINGENT LIABILITIES		
Pending Litigation Cases		
Zabalaza Mshengu/uMshwathi Municipalities and others		
This is a declaratory application sought by labour tenants against various municipalities including uMshwathi Municipality. The order sought is that the municipalities install water connections and access to basic sanitation including installing ventilation, improved pit and refuse collection.	500 000	500 000
 uMshwathi/N.N. Maistry and other		
This an application brought by uMshwathi Municipality against N.N. Maistry. The municipality sought an order interdicting the Respondent from allowing people to erect and construct structures on the farm without first complying with the Spatial Planning and Land Use Management laws.	300 000	300 000
28 RISK MANAGEMENT		
The municipality's activities expose it to a variety of financial risks: market risk (fair value interest rate risk and cash flow interest rate risk) credit risk and liquidity risk. The municipality has developed a comprehensive risk strategy in terms of Treasury Regulation 28.1 in order to monitor and control these risks. Internal Audit function reports quarterly to the Audit Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures. The risk management process relating to each of these risks is discussed under the headings below.		
Liquidity risk		
The entity manages liquidity risk through proper management of working capital, capital expenditure and actual forecast cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained.		
Interest rate risk		
As the municipality has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.		
Credit risk		

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2020	2019
R	Restated
R	R

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an on-going basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customers, taking into account its financial position, past experience and other factors.

Note 30 DEVIATIONS

The following is a list of expenditure for which there was a deviation from the normal SCM process

UNIQUE NO.	DATE REQUESTED	APPROVED DATE	DEPARTMENT	REASONS FOR DEVIATING	Motivation	COMPANY AWARDED	AMOUNT R	VOTE NUMBER
1023/24	03.09.2019	03.09.2019	Technical services	Exceptional Circumstances	The consultants were employed in 2011 for the construction of the Bus Route for the housing development in Cool Air. Additional work (not included in the original scope) was required in terms of Department of Transport requirements. Ibhongo was the original consultant on the project thus their reappointment to complete the additional work	Ibhongo Consulting	386 526.22	O0040-9/IA00132/F0791/X116
428	06.11.2019	06.11.2019	Community Services	Exceptional Circumstances	The original service provider, Mdiali Projects, that was appointed did not pitch up at the site on the day for the refuse to be collected thus Kwabiyela Construction being appointed urgently on the day for the collection	Kwabiyela Construction	42 000.00	O1273-8/IE00571/F0041
1026	29.11.2019	29.11.2019	Technical Services	Emergency	Repairs to Mvundlweni Creche to be used as a shelter to house those who lost their homes due to the tornado	Sindismiso Holdings	76 820.00	O3229-20/IE00649/F0041/X005
354	24.02.2020	06.03.2020	Community Services	Emergency	Provision of temporary tent, toilets, tables and chairs for 10 days after the tornado disaster	Kulugu Construction and Projects	39 008.00	O1263-1/ie00694/f0041/x019
Total deviations							544 354.22	

Note 31 IRREGULAR EXPENDITURE

	2020 R	2019 R
Opening Balance	37 367 964	23 416 009
Irregular Expenditure Current Year Discovered during the audit	0	10 802 391
	0	3 149 564
Condoned During the Year:		
Irregular Expenditure Prior 2019	-34 218 400	
Irregular Expenditure 2019	-3 149 564	
Closing Balance	0	37 367 964

The irregular expenditure identified in 2018/19 was condoned by Council on 29 October 2020

Note 32 UNAUTHORISED EXPENDITURE

	R	R
Opening Balance	3 006 293	1 221 380
Contribution to Provisions		1 784 913
Condoned During the Year:		
Unauthorised Expenditure: Prior 2019	(1 221 380)	0
Unauthorised Expenditure: 2019	(1 784 913)	
	0	3 006 293

The previous year's unauthorised expenditure was condoned by Council on 29 October 2020

Note 33 FRUITLESS AND WASTEFUL EXPENDITURE

	R	R
Opening Balance	24 431	0
Traffic Fine not Recovered	0	500
Penalty for late submission of WCA R	0	23 931
Condoned by Council	-24 431	
	0	24 431

The previous year's fruitless and wasteful expenditure was condoned by Council on 29 October 2020

Note 30.1

Deviations on Covid-19 Expenditure

No.	Date	Supplier	Procurement	Motivation	Item	Quantity	Amount (Rands)	Voucher
1154	23-Apr-20	Bidwest Steiner	Deviation	Purchase of sanitiser on 14 April 2020	5 litre Hand Cleaner	50	19 780.00	913324
					5 litre Germicide	4		
					Wipe Care Surface	50		
0358	23-Mar-20	Bidwest Steiner	Deviation	Purchase of sanitizer and wipes to address COVID 19 regulations	5 litre Hand Cleaner	4	5 715.00	913324
1148	26-Mar-20	Nasa Industrial Supply	Deviation	Purchase of hand sanitizer for councillors	Hand Sanitizers	50	11 212.00	913328
							36 707.00	
1152	8-Apr-20	nSindiso Group	Deviation	Purchase of masks to be supplied to Essential Services employees working during the lockdown	3 Ply Surgical Masks	2000	34 000.00	913326
					FFP1 Masks	400	6 110.00	
							40 110.00	
1155	24-Apr-20	Sling and Stone	Deviation	Acquired masks as an emergency in line with National Treasury guidelines	3 Ply Disposable Masks	10000	180 000.00	913343
0357	19-Mar-20	Workwear Depot	Deviation	Purchase of gloves to address COVID 19 regulations	Nappa Gloves	50	3 450.00	913323
					PVC Hard wareing gloves	50	4 249.81	
					Nitrile Chemical gloves	50	899.87	
					Nylon Lycra Gloves	50	1 450.15	
					Disposable High Risk Gloves	11	1 968.97	
							12 018.80	
360	19-Mar-20	Nasa Industrial Supply	Deviation	Purchase of gloves, hand sanitizer and FFP2 masks	Latex free Nitr Gloves	30	5 175.00	913138
					500 ml Hand Sanitizer	30	6 865.50	
					FFP2 Dust Masks	10	10 292.50	
							22 333.00	
							34 351.80	
1151	4-May-20	Sling and Stone	Deviation	Acquired thermometers as an emergency in line with National Treasury guidelines	Non Contact Thermometer	25	62 500.00	913330
361	24-Mar-20	Mawoli Pest & Cleaning Service	Deviation	Disinfection of offices and vehicles in response to Covid Pandemic	Disinfection of Offices		25 700.00	913151
1153	4-Apr-20	Mawoli Pest & Cleaning Service	Deviation	Disinfection of offices in response to Covid Pandemic after identifying certain employees to come back to the office	Disinfection of Offices		19 900.00	913329
							45 600.00	
364	4-Apr-20	Sizokusiza Business Enterprise	Deviation	Cleaning of waste at Bhamshela taxi rank and provision of skip at rank before a disinfection campaign during the lockdown	Collection of Waste at Bhamshela		12 000.00	913327
	20-Apr-20	Kuhlekazi Trading	Deviation		Hire of TLB for use at Bhamshela		9 500.00	913325
0366		Dalton Builders	Deviation		Move Skip from Cool Air To Bhamshela		7 475.00	913322
							28 975.00	
367	5-May-20	Jobe Event Management	Deviation	PPE for Councillors and officials assisting of sanitizing taxi ranks	Conti Suits	28	9 240.00	913336
					Heavy Duty Gloves	12	1 758.40	
					Safety Boots	3	1 350.00	
					Goggle Masks	17	1 955.00	
					Delivery		2 500.00	
							16 803.40	
359	19-Mar-20	Nasa	Deviation	Purchase of FFP1 masks to address COVID 19 regulations	FFP1 Masks	40	31 970.00	913138
							477 017.20	

APPENDIX A (Not Audited)

uMSHWATHI LOCAL MUNICIPALITY : SCHEDULE OF EXTERNAL LOANS AT 30 JUNE 2020

EXTERNAL LOANS	Loan Number	Interest rate	Redeemable	Balance at 30-Jun-19	Received during the year	Redeemed or written off during the year	Balance at 30-Jun-20
				R	R	R	R
ANNUITY LOAN							
FIRST NATIONAL BANK	2	Prime less 1,00 %	3/31/2018	892 483	-	892 483	-
DEVELOPMENT BANK	1	9,4 %	4/30/2020	-	-	0	-
TOTAL EXTERNAL LOANS				892 483	-	892 483	0

APPENDIX B (Not Audited)
uMSHWATHI LOCAL MUNICIPALITY : ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AT 30 JUNE 2020

	Cost/ Revaluation					Accumulated Depreciation				Carrying Value	Budget Additions 2018
	Opening Balance	Additions	Under Construction	Disposal	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance		
Land and Buildings											
Land	11 657 994				11 657 994	425 953			425 953	11 232 041	
Buildings	135 798 392	5 361 528	1 208 200	(11 142 204)	131 225 916	25 040 174	3 910 026	(1 527 693)	27 422 507	103 803 409	11 016 000
	147 456 386	5 361 528	1 208 200	(11 142 204)	142 883 911	25 466 127	3 910 026	(1 527 693)	27 848 460	115 035 451	11 016 000
Infrastructure											
Electrification reticulation	4 776 947			(4 776 947)	0	0			0	0	0
Construction works	168 191 823	15 697 399	1 028 429		184 917 651	59 655 308	7 799 441		67 454 749	117 462 901	16 575 000
	172 968 770	15 697 399	1 028 429	(4 776 947)	184 917 651	59 655 308	7 799 441	0	67 454 749	117 462 901	16 575 000
Other Assets											
Office and computer equipment	6 934 293	35 939			6 970 232	4 771 051	739 420		5 510 471	1 459 761	750 000
Furniture and fittings	4 089 937	122 594			4 212 531	2 823 048	255 521		3 078 569	1 133 962	500 000
Tools	71 889				71 889	68 257			68 257	3 632	0
Motor vehicles and major equipment	7 164 186	1 948 805			9 112 991	6 017 633	723 599		6 741 232	2 371 758	1 500 000
Machinery	2 832 233	129 500			2 961 733	787 052	154 296		941 348	2 020 385	0
Air conditioners	176 384				176 384	86 069			86 069	90 314	0
Other	138 018				138 018	137 718			137 718	300	0
	21 406 939	2 236 838	0	0	23 643 777	14 690 828	1 872 837	0	16 563 665	7 080 112	2 750 000
Total	341 832 095	23 295 766	2 236 629	(15 919 151)	351 445 339	99 812 263	13 582 304	(1 527 693)	111 866 874	239 578 464	30 341 000
Intangible Assets											
Computer Software	3 658 418				3 658 418	2 254 626	667 315		2 921 941	736 477	0
Total	345 490 513	23 295 766	2 236 629	(15 919 151)	355 103 756	102 066 889	14 249 619	(1 527 693)	114 788 816	240 314 941	30 341 000

-470 578

APPENDIX C (Not Audited)

uMSHWATHI LOCAL MUNICIPALITY : SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AT 30 JUNE 2020

	Cost/ Revaluation						Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Under Construction	Disposal	Closing Balance		Opening Balance	Additions	Disposals	Closing Balance	
Executive and Council	30 460 864	2 107 338			32 568 202		8 802 084	1 718 541		10 520 625	22 047 577
Finance and Admin	22 212 308				22 212 308		7 066 153			7 066 153	15 146 155
Health	72 820				72 820		72 819			72 819	1
Community & Social Services	113 269 246	5 361 528	1 208 200	(15 919 151)	103 919 824		25 195 400	3 910 026	(1 527 693)	27 577 733	76 342 090
Public Safety	852 806				852 806		527 040			527 040	325 766
Waste Management	2 553 330				2 553 330		82 806			82 806	2 470 524
Road Transport	171 044 152	15 826 899	1 028 429		187 899 480		56 931 293	7 953 737		64 885 030	123 014 450
Other	1 366 569				1 366 569		1 134 668			1 134 668	231 901
	341 832 095	23 295 766	2 236 629	(15 919 151)	351 445 339		99 812 263	13 582 304	(1 527 693)	111 866 875	239 578 464
Intangible Assets	3 658 418				3 658 418		2 254 626	667 315		2 921 941	736 477
	345 490 513	23 295 766	2 236 629	(15 919 151)	355 103 756		102 066 889	14 249 619	(1 527 693)	114 788 816	240 314 941

APPENDIX D (Not Audited)

**uMSHWATHI LOCAL MUNICIPALITY : SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2020**

	2020			2019		
	Actual Income R	Actual Expenditure R	Surplus/ (Deficit) R	Actual Income R	Actual Expenditure R	Surplus/ (Deficit) R
Executive and Council	109 229 821	32 215 733	77 014 088	99 628 558	37 409 523	62 219 035
Finance and Admin	53 582 943	61 797 367	-8 214 424	56 910 171	55 275 989	1 634 182
Community & Social Services	1 584 053	32 182 505	-30 598 452	2 738 378	29 419 070	(26 680 692)
Public Safety	171 671	7 045 058	-6 873 386	295 271	6 523 555	(6 228 284)
Waste Management	2 712 801	1 385 037	1 327 764	2 402 453	1 890 849	511 604
Road Transport	27 683 240	21 127 560	6 555 681	27 342 317	13 866 340	13 475 977
Sub - total	194 964 529	155 753 259	39 211 270	189 317 147	144 385 325	44 931 822

APPENDIX E (1) (Not Audited)
uMSHWATHI LOCAL MUNICIPALITY : ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2020

REVENUE	2020 Actual R	2020 Budget R	2020 Variance R	2020 Variance %	Explanation of significant variances
Property rates	44 187 273	44 012 000	175 273	0%	The increase in net rates is due to the over budget for rebates on Government Properties
Service charges	2 712 801	2 500 000	212 801	9%	There were some additional applications for refuse removal during the year
Rental of facilities and equipment	595 055	700 000	(104 945)	-15%	Some premises were not used during the lockdown
Interest earned - external investments	2 485 488	2 000 000	485 488	24%	Investments were held for longer periods during the year thus an increase in interest earned
Interest earned - outstanding debtors	6 875 174	8 000 000	(1 124 826)	-14%	Relief on interest was given between April and June was given due to the Covid Lockdown
Income for agency services	1 706 232	2 225 000	(518 768)	-23%	Due to the Covid Lockdown the Motor licensing office was closed between April and June
Government grants and subsidies	108 577 782	108 997 000	-	0%	
Traffic Fines	12 500	30 000	(17 500)	-58%	Traffic fine reduced by the court
Other income	221 224	322 000	(100 776)	-31%	Income from resources such as hall rentals, taxi ranks and building plans was less due to the lockdown
MIG Funds	27 591 000	27 591 000	-	0%	
Total Revenue	194 964 529	196 377 000	(993 253)	(1)	
EXPENDITURE	2020 Actual R	2020 Budget R	2020 Variance R	2020 Variance %	
Employee related costs	70 007 356	71 195 000	(1 187 644)	(2)	Certain budgeted posts were not filled in an attempt to reduce the salary to total cost ratio
Remuneration of Councillors	9 997 368	10 155 000	(157 632)	(2)	
Depreciation	14 249 619	15 000 000	(750 381)	(5)	
Interest paid	66 302	200 000	(133 698)	(67)	The budget for finance charges was over budgeted
Contracted services	26 697 582	30 770 000	(4 072 418)	(13)	Certain expenditure that was budgeted for were not incurred due to the Covid Lockdown
General expenses	29 780 506	33 163 000	(3 382 494)	(10)	Certain expenditure that was budgeted for were not incurred due to the Covid Lockdown
Contribution to Reserves	4 954 526	5 000 000	(45 474)	(1)	
Capital Contribution	-	0			
Total Expenditure	155 753 259	165 483 000	(9 729 741)	(6)	
Surplus (Deficit) for the year	39 211 270	30 894 000	8 736 488		

APPENDIX E (2) (Not Audited)

uMSHWATHI LOCAL MUNICIPALITY : ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2020

	2020 Additions R	2020 Under Construction R	2020 Total Additions R	2020 Budget R	2020 Variance R	2020 Variance %	Explanation of significant variances
Construction works	15 697 399	1 028 429	16 725 828	16 575 000	150 828	1	
	15 697 399	1 028 429	16 725 828	16 575 000	150 828		
Community Assets							
Buildings	5 361 528	1 208 200	6 569 728	11 016 000	(4 446 272)	(40)	There was a delay in the implementation of some of the projects due to the lockdown
	5 361 528	1 208 200	6 569 728	11 016 000	(4 446 272)		
Other Assets							
Office and accounting machines	35 939	-	35 939	750 000	(714 061)	(95)	Furniture and equipment was planned to be purchased in the last quarter but due to the lockdown no purchases were made.
Furniture and fittings	122 594	-	122 594	500 000	(377 406)		
Machinery	129 500	-	129 500	0	129 500	#DIV/0!	Brush cutters were needed urgently for the cemetery section
Vehicles	1 948 805	-	1 948 805	1 500 000	448 805	30	
Intangibles	0	-	0	-	-		
	2 236 838	-	2 236 838	2 750 000	(513 162)		
Total	23 295 766	2 236 629	25 532 395	30 341 000	(4 808 605)	(16)	

APPENDIX F to Annual Financial Statements as at 30 June 2020 (Not Audited)

UMSHWATHI LOCAL MUNICIPALITY - DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, ACT 56 OF 2003

Description	Name of organ of State	Unspent balance at 1 July 2019	Received 2019/20	Expenditure 2019/20	Transfer 2019/20	Unspent balance at 30 June 2020	Compliance with grant conditions	Conditions of Grant
		R	R	R	R	R	YES/NO	
MIG	National Government	-	27 591 000	(27 591 000.00)	-	-	YES	Expenditure to be in terms of projects registered
Dept. of Arts & Culture	Dept. of Arts & Culture	-	2 851 000	(2 851 000.00)		-	YES	
Department of Energy	Department of Energy	-	5 000 000	(5 000 000.00)		-	YES	
Department of Public Works: EPWP	Dept of Public Works: EPWP	-	1 322 000	(1 322 000.00)		-	YES	
FMG	National Government	-	1 970 000	(1 970 000.00)		-	YES	Expenditure in terms of Implementation Plan submitted
Disaster Relief Grant	National Government	-	953 000	(533 782.20)		419 218	YES	Expenditure in terms of Implementation Plan submitted
		-	39 687 000	(39 267 782.20)	0	419 218		
					0			